

# **Business Innovation Facility Phase 2**

## ***Guidelines for Country Programme Market Selection, Diagnosis and Intervention Planning***

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## 1.0 Introduction

This document provides further detailed guidance to support the framework for selecting, analysing and building market intervention strategies under BIF2, as set out in the BIF Phase 2 Design Document, *Section 4 - Market Selection and Market Strategies*.

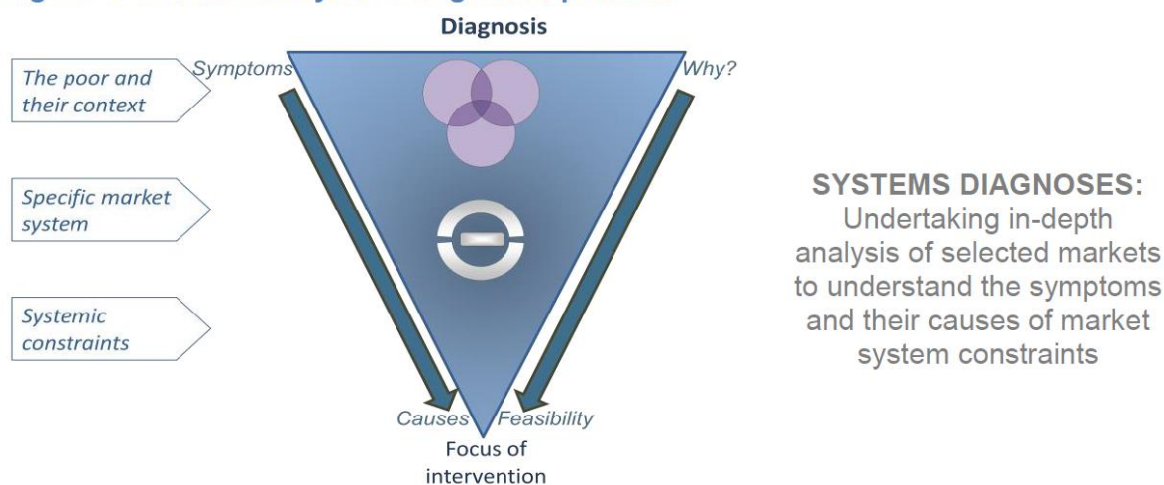
## 2.0 Overview of the Process

The process envisaged consists of 3 distinct 'phases', each of which may be broken down into multiple steps. These phases are:

1. Market prioritisation
2. Market system analysis, diagnosis and strategy development
3. Intervention planning

Collectively the process as a whole constitutes one of 'market system diagnosis' as illustrated in Figure 1 below.

**Figure 1: The market system diagnostic process**



## 3.0 The Diagnostic Process

### 3.1 Market selection and prioritisation

The Design Document sets out common criteria for prioritising and selecting markets at which to focus more detailed analysis and, subsequently, BIF2 intervention. This is an important activity both practically and strategically. It is a means of prioritising BIF2 resources, but also building consensus with DFID and other key stakeholders on where BIF2 should focus.

The criteria provide a framework for BIF2 teams, in consultation with DFID and Steering Group, to prioritise markets both at the outset as part of country-level inception phases as well as during subsequent and ongoing implementation phases:

1. **Inception phase: opening market selection:** In order to generate an opening portfolio, the market prioritisation process aims to move from a 'long-list' to a 'short-list' of markets using a common assessment framework through which to compare the developmental potential of respective markets. The 'long-list' of markets will commonly be developed in consultation with DFID and, where appropriate, drawing upon prevailing market knowledge from BIF1 and/or other ongoing development interventions.

2. **Implementation phase: 'new' market selection:** Once initial market analysis and interventions have begun, BIF2 will build its portfolio, commonly by either a) opening interventions in remaining short-listed markets; b) identifying new interventions in, or interconnected with, existing markets as understanding of market constraints grows; or c) exploring new markets - including cross-cutting markets (see 3.2.2 below) - whose poverty reduction and growth potential has emerged and/or changed overtime.

In both Inception and Implementation contexts, market selection involves assessing 4 areas of potential:

1. Relevance to the Poor (poverty reduction potential): criteria here mainly seek to analyse whether markets are relevant to, and have outreach potential for, large numbers of the poor.
2. Constraints and opportunities for market growth (pro-poor growth/access potential): criteria here assess the potential of markets to generate growth in employment and income and/or access to services. This involves looking at key market trends and understanding of opportunities and constraints to growth/access.
3. Feasibility of intervention: criteria here assess the feasibility for BIF2 to stimulate lasting, systemic change and what potential agents or triggers for change exist.
4. Existing development efforts (potential synergies): criteria here assess the synergies with existing or planned development efforts by DFID and its national/regional government and donor partners.

A proposed set of criteria to facilitate assessment of each of these 4 areas of potential and thus to support comparative analysis and prioritisation is summarised in Table 1 below and further detailed breakdown provided in Annex 1.

**Table 1: Prioritisation Criteria**

Category	Criteria
Relevance to the poor	1. Number of poor households employed/engaged/able to access opportunities
	2. Number of poor women involved in the market in different roles
	3. Opportunities both for poor women and men from poor households to improve their incomes and/or employment prospects significantly
	4. Ability to ameliorate vulnerability amongst poor households
Constraints & opportunities for market growth	5. Importance of the market to economy
	6. Strength of previous and forecast growth/access trajectory of market
	7. Potential to benefit poor households
	8. Level of competitiveness (OR collaboration) in the market
	9. Current level of, and prospects to, attract (private/public) interest and investment
Feasibility of intervention	10. Availability of champions (change agents) with leverage
	11. Strength and dynamism of the market
	12. Conduciveness of political economy and openness to change / policy reform
Existing development efforts	13. Willingness of market players to change business model/adopt new practice
	14. Consistency with DFID Country priorities
	15. Synergy with Government strategies
	16. Synergy with other development initiatives

## Key Considerations:

### *Inception phase: opening market selection:*

- Reaching agreement on both the long-list and the prioritisation criteria
- Reaching agreement on respective 'weighting' between the 4 categories.
- Utilisation of knowledge already available vs. the need for supplementary primary research and consultation.
- Ensuring the understanding of respective markets is sufficiently balanced to enable credible comparative analysis drawing on both qualitative and quantitative data.

### *Implementation phase: 'new' market selection*

- Setting out a transparent decision-making process to support BIF2's ongoing identification, prioritisation and selection of new and/or interconnected markets.

**Key Output:** *Prioritisation Report and presentation to Country-level Steering Group summarising the analysis and rationale for market identification/prioritisation and agreement on market portfolio.*

## **3.2 Market system analysis, diagnosis and strategy development**

For each market selected, in-depth analysis is required to identify and understand the root causes of the poor's disadvantage and how BIF2 might help stimulate sustainable (i.e. systemic) changes that address those root causes. This takes analysis from 'market' into those components of the market - market systems - where constraints for the poor are found. (e.g. from the maize market to financial service systems) and then to opportunities in the form of new practices/business models that may offer sustainable solutions to those constraints.

This is an important distinction for BIF2. Working with individual firms and developing inclusive business models is a 'means to an end' not the 'end' in itself. Specifically, BIF2 support seeks to catalyse (or contribute to) change that addresses priority systemic constraints for the poor.

This is an ongoing and iterative process that BIF2 will be constantly deepening and extending in order to better target interventions. In the first instance, however, it should consist of 3 key steps:

1. Market mapping: mapping the structure, dynamics and key stakeholders in the market.
2. Understanding systemic constraints: identifying constraints to the poor and exploring their root causes.
3. Identifying innovation leverage point(s): pinpointing where BIF2 can be an effective catalyst (through firm-level and/or other interventions) for pro-poor/inclusive system change.

## Key Considerations:

- Retain in-house ownership and oversight of initial and ongoing market analysis and understanding. As an iterative process, analysing and understanding markets must be led by core BIF2 country teams. Where external specialists are utilised, it remains critical that such inputs are closely overseen, guided and coached by BIF2 core team members to ensure the knowledge (both tacit and explicit) is captured by the team and that external consultants apply BIF2's market systems framework rigorously.

- Capturing and keeping up-to-date market understanding requires BIF2 country teams to prioritise and adequately resource knowledge management. This implies embedding knowledge management and learning as core tasks in all BIF2 operations and putting in-place appropriate knowledge management systems in support of this.
- Direct interaction with market players/companies during market analysis will be key to identifying leverage points and prospective partnerships. In some cases pilot and/or exploratory interventions (i.e. action-research) may be considered as a means of completing market analysis and diagnostics. Typically this may involve pilot interventions that provide some form of support to a company through which BIF2 seeks primarily to 'learn' more.

### 3.2.1 Mapping market structure and performance

This step requires describing the market and its dimensions, dynamics and stakeholders. Whilst multiple 'illustrations' can be used (i.e. the M4P doughnut - see Figure 2, variations on Value Chain Systems diagrams etc.), these are only illustrations and the detailed narrative description of the markets 'constituent parts' is most critical.

#### Key Considerations:

- i) *Market structure:* Describe the market in terms of it's:
  - a. Core product/service function (Value chain)
  - b. Supporting functions
  - c. Rules (formal/informal) and regulatory functions

For each of these sets of functions the description should include:

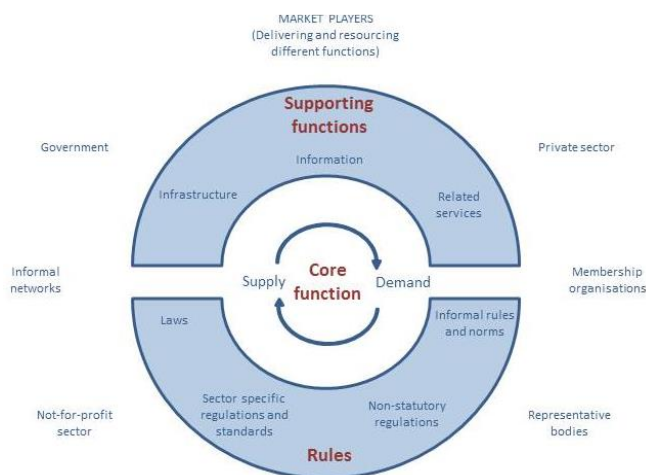
- The key activities / interactions and any significant variations in the way in which these functions are undertaken - i.e. significantly different operational models between stages and/or players.
- The key market players involved in providing each function (including those who 'do' and those who 'pay').
- The apparent incentives and capacity of these players to perform/pay for these functions and thus how well or otherwise they are performing them.
- Any important aspects of their business models / tactics may determine the quality of their performance
- Any significant political economy factors affecting player incentives

- ii) *Market dynamics:* what key trends are apparent that explain how the market is and will continue to evolve?

Key questions include:

- Market trends and projections?

Figure 2: Stylised market system



- Critical events (innovation, policy, new stakeholders etc.)?
- Changing practices and processes in the market / amongst stakeholders? I.e. the 'innovation landscape' - what innovations are happening? Are local players behind the innovation frontier regionally and what is the potential for imminent change?

iii) *Market performance*: how well or otherwise are key functions (important to the poor) being performed - identifying where underperformance may persist?

Key questions include:

- How do the target poor engage in the market?
- At what points/transactions are they disadvantaged?
- What stakeholders (public as well as private market) are important at those points of disadvantage?
- What is the nature of the relationship(s) between the poor and those key stakeholders - both formal and informal?

Look for underperformance in the context of:

- Absent - perhaps no incentives for a function to be performed
- Mismatch - a function maybe being performed ineffectively by a market player with the wrong capacity or incentive to do so
- Sub-optimal - a function may be being performed by the 'right' player without the capacity or incentive to improve performance

The output of this step is pinpointing where key constraints lie in the 'system', but not necessarily their root causes which is the subject of the next step.

### **3.2.2 Understanding systemic constraints**

This step requires asking a series of 'why' questions to move from the symptoms of disadvantage of the poor and market underperformance to understand the root cause(s) of that underperformance and why it persists.

For BIF2 it is important to regularly assess 'the feasibility question' as greater understanding of the systemic constraints emerges. BIF2 is a relatively tightly defined 'tool' and is better designed to address some constraints than others. The diagnostic process - particularly from the point of starting to understand specific systemic constraints - needs to take into account BIF2's 'competitive advantage' in being able to contribute to systemic change.

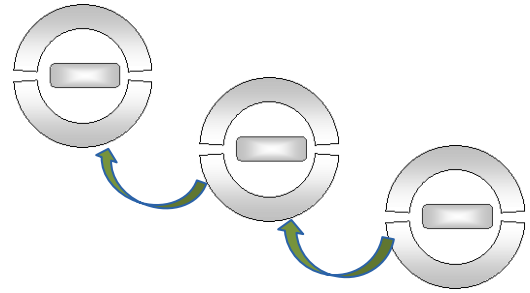
Asking 'why' will take the analysis deeper into market systems and particular points in the core or, more likely, supporting functions/rules to which underperformance can be traced. Underperformance in an agricultural market, for example, may be traced to problems in the supply of key inputs (i.e. seeds, information, finance etc.) or regulatory mechanisms (quality controls). In order to understand why these specific functions/rules are underperforming, further and deeper analysis will be necessary.

### **Interconnected markets**

Often, as with the examples above, these supporting functions/rules are sufficiently complex and multi-player activities to be considered 'interconnected' markets - that is, market systems in their

Figure 3: Interconnected markets

own right (such as the supply-demand market for agricultural inputs or product quality controls) requiring the level of detailed market analysis described above in order to pinpoint the root cause of problems affecting the interconnected market and which, in turn, is a critical constraint to the original market being analysed.



Interconnected market analysis requires following the same steps described above, namely analysing:

- Market structure in terms of the core product/service market; Supporting functions; and Rules - describing key activities / interactions, key market players involved and their apparent incentives and capacities, and important factors that may influence their performance such as business model peculiarities or political economy factors.
- Market dynamics in terms of the key trends explaining how the market is and will continue to evolve
- Market performance how well or otherwise the key functions (important to the poor) are being performed and where underperformance may persist

#### Key Considerations:

- The diagnostic process seeks to filter information in order to pinpoint root cause issues and to identify points of leverage for BIF2 intervention. The search for root cause issues and means of leveraging change around those issues determines the depth and breadth of analysis required and the extent of any interconnected market analysis that should be considered. BIF2 teams will need to make case-by-case judgements as to those critical functions/rules warranting comprehensive interconnected market analysis and make provision in the timeframe for market analysis to accommodate the likely need to analyse multiple interconnected markets for each core market being examined. In making this decision it may be valuable to consider two critical questions:
  - i Do you really understand the nature of the problem and what is causing it or do critical gaps in your understanding remain?
  - ii Have you identified a leverage point (innovation opportunity; innovating partner) - see 3.2.3 below - through which BIF2 can more effectively examine and help develop a solution to constraints in either the core or an interconnected market?

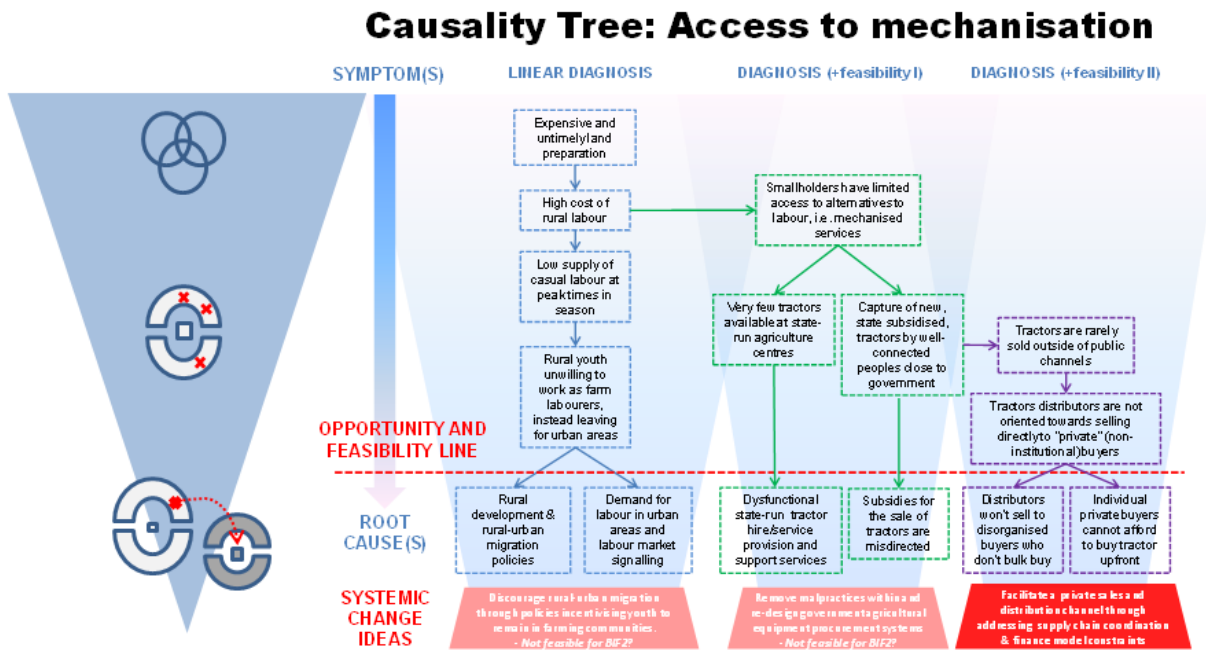
**N.B.** Analysis in multiple allied markets (e.g. multiple agricultural products) may identify corresponding key constraints in the same interconnected market (e.g. seeds or finance). Where these constraints are deemed of sufficient priority and the (interconnected) market sufficiently complex to warrant detailed analysis, BIF2 should consider whether to prioritise the interconnected market as new 'cross-cutting' market for consideration of the Steering Group requiring a stand-alone Market Analysis and Strategy.

- It is critical to layout a valid chain of causality from 'symptoms' to 'root causes' and, in so doing, challenge and strengthen that causality. 'Causality trees' are a useful means of exploring feasibility in order to flag and 'close' lines of enquiry leading to constraints and potential solutions beyond the capacity of BIF2 to address and/or contribute to - see

Figure 4 below. This can ensure effort is not 'wasted' on pursuing systemic constraints that BIF2 cannot address. However, sufficient understanding of those constraints remains critical in order to justify such decision-making.

- The reasons for continued under-performance (whether in the core or an interconnected market) very often lie in constraints to the capacity and/or incentives of those involved. BIF2 teams will be familiar with appraising the commercial incentives and investment capacities of firms and their decision-makers in respect of business model development and this remains important. In addition BIF2 can expect to need to understand the incentives and capacities of a wider group of market players on whom the success and scalability of new models/practices may depend. For example, the success of a new slum sanitation solution may depend on players within the firm (decision-makers as well as individuals in the firm) but also external players such as local planning authorities and/or water service providers. The incentives and capacities of all these players will determine the success of a firm-level intervention and must, therefore, be understood.

Figure 4: Example Causality Tree



- Importantly, the analytical process should be seen as an ongoing investigative process, NOT a series of standalone/parallel and one-off research efforts (i.e. market analysis, gender analysis, political economy analysis). The diagnostic process should draw on these different methodologies as and when that process leads to questions requiring answers that are best generated by gender, political economy, stakeholder analysis etc. By implication, a multi-disciplinary team approach is critical.



**N.B.** In the context of social instability (i.e. Myanmar, northern Nigeria) BIF2 may need to emphasise the additional dynamic of social division where two or more groups believe their interests are incompatible. Resolution and subsequent economic is possible when individuals and groups have trust in their governing structures, society and institutions to manage incompatible interests. Social division becomes a problem when this trust and respective social diversity 'management' capacities are absent and conflicting parties choose to resort to non-peaceful means to secure their goals. The use of political economy analysis should encompass identification of high and low risk factors to developing the target market system(s) that may exacerbate socioeconomic tensions between groups, and/or existence of feasible (within the scope of BIF2 and its partners) mitigation strategies to ensure economic and/or social impact is equitable and inclusive. Key questions might include:

- *Is any specific group excluded from participating in the market i.e. access to land, job placement?*
- *Is growth in the market expected to benefit participants equally?*
- *Will growth in the market exacerbate or create 'pressure points' i.e. increased reliance on natural resources, transport costs, multi-ethnic / crowded market places?*
- *Does the market provide opportunities for previously excluded groups?*
- *Can dispute resolution in the market (i.e. negotiation between stakeholders) be leveraged for wider socioeconomic dispute resolution?*
- *Do opportunities exist for economic cooperation across groups? (i.e. trading, joint production, investment, business partnerships/ associations)*
- *Are there opportunities for market stakeholders to participate in policy dialogues related to stability?*

### **3.2.3 Identifying innovation leverage points**

The analysis of systemic constraints will, inevitably, identify multiple constraints and, hopefully, multiple opportunities to address those constraints. As noted above, regular/continuous assessment is necessary to appraise the feasibility of BIF2 intervention in order to establish and validate *where* and *how* BIF2 as an instrument offers an effective catalyst for change.

This means reflecting on the key constraints and their root causes and the innovation landscape, and making decisions on prioritising where BIF2 can add value.

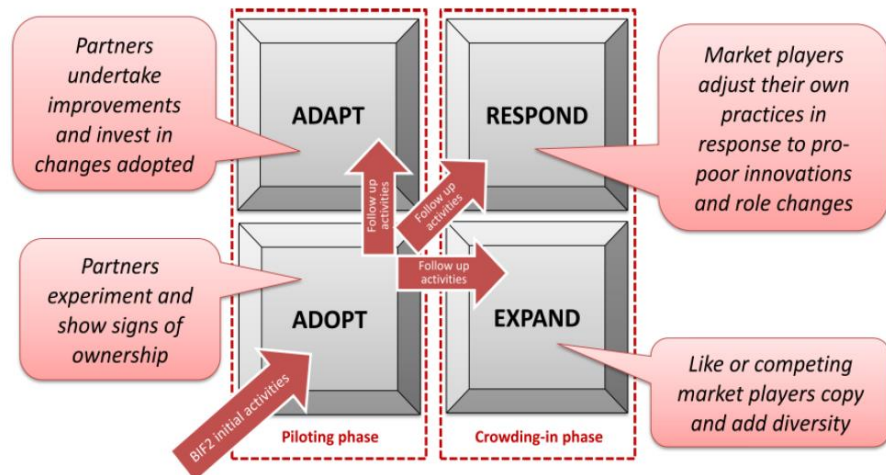
#### **Key Considerations:**

- **Innovation Potential** - what is the potential for BIF2 as a tool to stimulate / contribute to pro-poor change with the potential for sustainable and scalable impact? Are there potential private sector innovation opportunities emerging and/or opportunities for BIF2 to support practice changes amongst other key market players?
- **Partnerships** - what is the scope for building effective partnerships with appropriately capacitated and incentivised firms (or other system players) in order to leverage inclusive innovation and long-term commitment to 'doing things differently'. This necessitates honest reflection and differentiation between 'ideal' partnerships (those who could be strong partners yet whose incentives are not well aligned with the system development goals of BIF2 as well as their own commercial goals) and 'realistic' partnerships (where greater common ground, motivation and innovative signs are apparent, whether or not a firm is a 'market leader'.). This also requires that BIF2 is transparent about its long-term aims of 'crowding-in' and increasing competition and that its partners are aware of and supportive of such an agenda.

- Systemic potential - does the intervention and associated innovation represent a genuinely systemic opportunity - something that can potentially deliver or lead to wider systemic change, or is the prospect likely to be limited to firm-level change/impact?

Importantly, what potential intervention areas does BIF2 need to encompass in its intervention strategy that will ensure the transition from firm-level impact to wider crowding-in and system-wide change? This requires assessment, discussion and planning around what steps BIF2 should incorporate in its market strategy that explicitly seek to stimulate systemic change - i.e. model / practice adoption, adaptation, expansion and market response - see Figure 5.

**Figure 5: A framework for innovation uptake**



- Feasibility - is BIF2 as a tool (primarily of firm-level TA support, but with scope for modest finance and other activities) and in its (4-year) timeframe sufficient to achieve the change envisaged?
- Prioritisation - in light of what constrains the system as a whole, does the proposed project/innovation genuinely address the higher-level priorities that have been identified as constraining the poor? And is there a sequencing issue to consider between multiple interventions in the same market/sub-system?
- Synergies – are there overlaps and/or complementarities with other initiatives that strengthen or weaken the case for BIF2 intervention?

### 3.2.4 Elaboration of market strategy

Based on the analysis, the team must set out the market challenges within the scope of BIF2 and its market player partners to address (i.e. those that are feasible), the innovation opportunity, and BIF2 strategy for stimulating a process of system change through business and/or other market player innovation and/or change.

In practice, this may first require BIF2 to prioritise those constraints within its capacity to address and, by implication, de-prioritise those it is less well-equipped to deal with. This prioritisation process should address, at the very least, 3 critical considerations:

- Feasibility: Is the market challenge one which BIF2 can feasible seek to address?
- Levers of change: Are there one or more potential levers of change (innovation, partner) through which BIF2 can intervene?

- iii **Sustainability:** Is the intervention opportunity likely to lead to change that is sustainable - i.e. offering genuine prospect for stimulating system-wide change?

In elaborating a clear market strategy, BIF2 should set out the following:

- A market vision statement
- Elaboration of specific intervention areas/focus where BIF2 envisages targeting intervention to realise that vision, including:
  - how functions may need to change
  - what changes this requires of specific market players
  - A description of envisaged up-take / crowding-in pathway expected that provides the rationale for BIF2 intervention to stimulate system-level (not just firm-level) impact
  - An assessment of any critical risks and/or strategic alliances envisaged
- A market-level Results Chain

Building strategies for each market requires developing a realistic vision of how the specific market constraint(s) can be addressed by the appropriate market players to generate a better functioning market. This process should reflect the 'logic' of the causality tree - linking changes in market player behaviour to how new practices/models will lead to changes at system, enterprise and poverty levels.

Each market strategy should be captured by a market-level Results Chain that describes system, enterprise and poverty level changes. These will be validated and tightened once the intervention planning process is complete (see 3.3 below).

The Results Chain and the narrative that accompanies it sets out how BIF2 market strategy translates into a set of logical results from intervention through system change, systemic outcomes and poverty reduction goals.

The intervention 'logic' described in the Results Chain(s) should be robust and credible and not loaded with numerous and/or unsubstantiated assumptions.

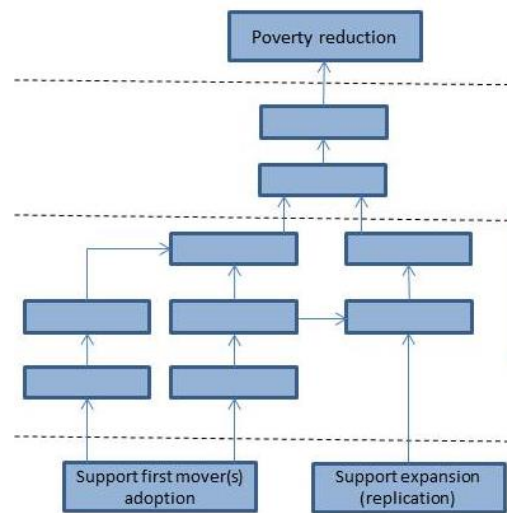
Respective boxes in the Results Chain require an appropriate indicator that can be measured as part of the intervention. Where implied indicators are expected to be hard/impossible to measure, alternative 'proxy' indicators need to be found. Importantly, the Results Chains should not be 'simplified' or truncated simply to accommodate ease of indicator identification and measurement.

At the 'system change' level of the Results Chain, BIF2 should be looking for signs of change beyond individual firms and will find it useful to categorise these according to the dimensions described in Figure 5 - i.e. moving beyond adoption by first mover to adaption (and internalisation) by that first mover; adoption and adaptation by others; expansion (roll-out) of the model by first mover and others; and wider response in the market as affected market players react to changes stimulated by the 'new' model or practice.

**Key Considerations:**

- The strategy must be realistic in identifying 'who' will undertake functions in the market (i.e. do the market players identified have the 'will' and 'skill' to continue that function?)

**Figure 6: Stylised Results Chain**



and how that function is expected to be sustained (i.e. paid for) in the long-term (i.e. are there incentives in place that will ensure the costs of that function continue to be met without external support?)

- The above point emphasises the need to understand and to build around the incentives and motivations of market players if the strategy is to be credible and achievable

***Key Output:*** *Market Analysis and Strategy (for each market short-listed) and presentation to Country-level Steering Group summarising the market diagnosis and strategy for development and intervention focus.*

### **3.3 Intervention planning**

For BIF2, intervention review and planning will, as with constraints analysis, be an ongoing and iterative process. Nevertheless, an 'opening' portfolio of interventions will need to be identified and planned at the end of the respective Country inception phases.

Intervention planning process should comprise the following elements:

- Define the 'innovation challenge'
- Identification of partner(s)
- Project preparation
- Results Measurement plan

#### **3.3.1 Define the innovation challenge**

Describe the innovation or practice/behaviour change that is needed through which to address the systemic constraint(s) prioritised by preceding analysis and elaborate the BIF2 approach to stimulating/supporting that. In the context of private sector enterprise, this would encompass defining the business model 'challenge' and how BIF2 will seek to address that challenge.

This step essentially turns the 'vision statement' from the Strategy document into a more detailed description of the model/behavioural change envisaged. This needs to set out the feasibility of BIF2 being able to stimulate that change, bearing in mind its competitive advantage as a private sector innovation support tool.

#### **3.3.2 Identification of partner(s)**

BIF2 needs to identify from amongst potential players which one(s) offer greatest prospects as a change agent(s) and develop / negotiate the BIF2 'offer'. This may be in the form of a) direct negotiation of a support package for a particular partner or b) development of a well-defined support offer that includes greater clarity of outcomes and which is more widely and/or competitively promoted to secure market player response. This will include BIF2 'due diligence' reviews and findings.

As part of the analytical process, the key market players will already be known, the more dynamic of those likely identified, and some understanding of their willingness and ability to 'change' established. This step uses that understanding in order to develop a relationship with one or more key players offering the potential for being change agents.

This step will also include tentative identification of those businesses or other market player partners through which BIF2 will work in pursuit of catalysing wider system change / crowding-in. This may entail direct approach to critical partners and/or setting out a clear strategy for

generating interest amongst a set of market players and from there establishing appropriate innovation partnerships.

### **3.3.3 Project preparation**

This step is a matter of turning the 'offer' and/or player responses into a defined project with attendant aims, commitments (BIF2 and partner), activities, resourcing (TA inputs, other) and timelines. Project details should include:

- Terms of BIF2-partner contributions and any special conditions attached to them.
- Statement of which activities BIF2 is responsible for and which partner(s) will undertake.
- Estimate of the future cost to the partner of maintaining any new practices introduced through intervention (i.e. activities that require recurrent performance).
- Estimated timescale, budget and risk assessment for key activities.
- Intervention results chains, indicators and measurement plans (see below).

For each specific intervention it is important for BIF2 to detail the value addition that BIF2 support represents, including an assessment of why that support offers a potentially catalytic intervention for the market player partner and wider market as a whole.

### **3.3.4 Results Measurement plan**

Each project should be supported by a Results Chain and measurement plan that feeds into the market-level Results Chain and measurement framework. The measurement plan should include agreed indicators around systemic change through which BIF2 team can monitor wider system changes and/or build interventions over time that move the market intervention from adopt/adapt to expand/respond. It should also include a measurement strategy detailing how BIF2 will capture data on the indicators and use that data to inform ongoing and new activities (i.e. 'improve' BIF2 activities and portfolio) as well as to support the measurement of progress and impact (i.e. 'prove' the logic behind respective market strategies).

**Key Output:** *Project intervention plans (including Measurement Plans and budgets) for presentation and approval by Country-level Steering Group.*

## **4.0 Key Principles for Implementation**

A core objective for BIF2 is transformational change - that is to leave behind better markets – that can function and adapt without external support – which can deliver benefits to large numbers of poor people in the future. BIF2 intervention must, therefore, *develop* markets in a positive and lasting way by stimulating behaviour and practice changes that market players sustain after BIF2 interventions end. Care must be taken not to *distort* the way markets work, though actions that displace market players or that cause them to alter their behaviour and practices in ways that aren't appropriate or sustainable.

How BIF2 engages with and supports market players is, therefore, vital in stimulating lasting behaviour change. Interventions should seek not only to encourage and support relevant players to innovate and take on new roles, but to maintain and improve them in the future.

## **4.1 Partner engagement**

BIF2 relies on market players to lead the change process and success will depend on those partners and the quality of partnership.

### **4.1.1 *Selecting partners and agreeing support***

From the diagnostic process and intervention planning, BIF2 will build an idea of who the right partner is, but it is only when project specifics (e.g. roles and responsibilities) are discussed that this is likely to be confirmed. Building the right partnership should drive BIF2 decision on selection process employed - i.e. between direct negotiation with an individual partner or 'offers' to several players to elicit competing responses.

Early interactions with prospective partners can be critical and these may well take place during the market analysis and research. Building the right impression and relationship is, therefore, critical for BIF2 from the outset.

#### Key Considerations:

- Many prospective partners may have dealt with other projects that may have given them the wrong idea about what they would gain by working with BIF2. BIF2 needs to clarify that partnership will be reciprocal, temporary, based on mutual benefit and without large cheques.
- Credibility will be undermined if you arrive poorly informed of the market the player operates in. BIF2's market analysis (facts and figures), ideas (future picture of the system) and tentative but realistic proposals/options for discussion represent a critical demonstration of real 'value addition' potential.
- During and after a project BIF2 will require access to specific information from the partner in order to monitor progress, adjust project direction and market strategies. The nature of the information required (e.g. business information, plans etc.) needs to be set out and agreed from the start.

### **4.1.2 *BIF2's offer of support***

BIF2 has a degree of scope in terms of the type of support it provides. The nature and level of support offered should be determined by any country-level agreed limits/constraints but, importantly, by the current picture of the market and the incentives and the capacity of the partner.

In seeking to stimulate lasting systemic change, it is important that BIF2 builds strong, genuine and reciprocal partnerships with its potential partners based on a shared vision of the change

both parties wish to see. This alignment of objectives can be expected to take time and effort to put in-place and sufficient time and resources should be allocated to getting to the point at which a credible and workable 'offer' emerges. The shared 'vision' this implies should be captured appropriately in the documentation developed between partner and BIF2 - see below.

The BIF2 offer to partners should be clear and specific, stating what both parties would like to achieve, what each party will contribute towards the change process, and include any terms and conditions that govern the partnership:

- Define the nature and extent of the support being offered and the obligations of both parties.
- Assess if BIF2 support risks eroding the incentives of either the partner or any market competitors to independently adopt the changes the partner is testing. BIF2 should be particularly wary of addressing a series of organisation-specific problems, one at a time.
- Avoid providing support to a partner that gives them an unfair advantage in the market.
- Avoid offering to fund or perform functions that will be part of the partner's day-to-day operations as this will undermine their incentive to pay for such functions in future. BIF2 support should be confined to one-off, transformational activities that lead partners and non-partners to invest in a new role or way of working.
- Ensure genuine commitment and (reciprocal) contribution from your partner. BIF2 support must prompt real commitment from your partner - often demonstrated by willingness to invest in the project.
- BIF2 support must be 'right sized'. The amount of support should be assessed relative to: (i) your partner's contribution and predicted benefit (and any recurrent expenditures); (ii) comparable investments made by similar market players; and (iii) the anticipated developmental impact. Too much support undermines the sustainability of a change process by distorting their valuation of the true cost of the initiative. Too little support could result in partnerships falling short of changing behaviours.
- Depending on the type of support, BIF2 may operate both tightly-defined formal agreements stating the terms and conditions of partnerships as well as less formal Memoranda of Understanding type agreements. Whilst formal, contractual agreements will be common for BIF2 and are necessary for transparency purposes, it is vital that they do not undermine the core objective of the support - that is to encourage behavioural change. BIF2 should seek, where possible, to minimise the use of legalistic, jargon-riddled contract language if it is to enshrine partner ownership of project activities.

#### **4.1.3 BIF2 learning**

BIF2's ambition for stimulating system change places considerable emphasis on 'real-time' monitoring and assessment of how partners and other market players are responding to interventions and whether envisaged change processes are in fact emerging. If not, changes in strategy, tactics and/or partnerships may be required. For each project, BIF2 should be monitoring whether:

- Partnership(s) are yielding the system-level outputs envisaged.

- Whether alternative partnerships may be warranted and/or if further collaboration with the original partner is necessary and whether that would risk being distortionary.
- Whether it is time to shift intervention focus to work with competitors and/or other types of player to stimulate wider system change/crowding-in.

BIF2 should expect to review project Results Chain progress indicators regularly in order to track the behaviour and responses of partners as well as other market players. This requires robust internal procedures to track market system dynamics and document any new knowledge generated during intervention.

## 4.2 Intervention management

BIF2 interventions may be categorised into two distinct phases:

- 'Pilot' activities that introduce, test and re-test an innovation until partners are able to maintain its performance and payment independently of programme support.
- 'Crowding-in' activities that increase the size and improve the sustainability of the impact through system-wide change and crowding-in during and/or after the pilot. These activities may involve partnerships with new players and/or further engagement with your initial partners.

### 4.2.1 Pilot interventions

Pilot interventions will aim to initiate and test an innovation or transformational concept with one or a small number of organisations. The aim is to establish whether partners are able to **adopt** and **adapt** lasting solutions to the root causes of market under-performance well enough for BIF2 to be confident that these solutions will be continued and improved in its absence.

#### Adopt

A market player successfully adopts a behaviour/practice change to the ultimate benefit of the poor producer/worker/consumer. This can be in the form of a new or improved product/service offer, business model, or the uptake of a new responsibility (i.e. a change in function or role).

The adopt element is the first 'milestone' and is reached when a market player(s) with whom the programme has initially engaged owns, recognises the value in, and independently continues the way of working with which they originally experimented as part of the programme pilot.

#### Adapt

The market player(s) that adopted the new/improved way of working pioneered during the pilot invests qualitatively or quantitatively (or both) in improving upon or 'rolling-out' (or both) the original changes.



## 4.2.2 Crowding-in interventions

Once satisfied that initial partners are continuing with their new roles and investing in the innovations BIF2 helped to pioneer with them during piloting, supplementary interventions should follow. The aim here is to shift from testing new roles and innovations to **expanding** and mainstreaming them and, where possible, to work to improve the **responsiveness** of players to the innovations taking place. The aim is to make pro-poor changes widespread in the market – the normal way in which the system will continue to operate in the future. This entails undertaking supplementary interventions, that may mean working with new and similar types of players, to ensure innovations are replicated and/or responded to. This is known as 'crowding-in'.

### Expand

A number of other (similar) market players themselves adopt comparable changes (pure copies or variants on the original changes) as a result of demonstration or competitive pressures.

### Respond

The continued presence of the behaviour/practice change elicits a reaction from other (dissimilar) market players in supporting systems, responding to new market realities by re-organising, developing their own new and improved roles/offers, and taking advantages of any opportunities created. Earlier and latter behaviour/practice changes are supported to evolve and develop further, and become ingrained or mainstream features of the market system.

### Key Considerations:

- Look out for other programmes whose actions can damage the sustainability of BIF2 interventions. Numerous other development initiatives may be expected, some using contradictory approaches and/or offering additional or different support to the same market players. In the context of Challenge Funds and/or Impact Investments, it is not uncommon for other initiatives to rush to work with 'successful' partners at the risk of displacing investment and ownership and undoing BIF2's original work.
- Don't rely on the demonstration effect. Do not assume that crowding-in will occur through a spontaneous demonstration effect as a result of initial interventions. In practice the demonstration effect is not as powerful as many believe. Pilot 'successes' often fail to progress to greater scale and acceptance because of widespread capacity, incentive, information and coordination shortcomings that remain in the market. Indeed a common sign that root causes of under-performance haven't fully been addressed is the continued failure of the 'demonstration effect.' Supplementary interventions are, therefore, nearly always required for pilot phase successes to achieve scale and for pro-poor outcomes to be institutionalised.

## Annex 1: Market selection framework

### a. Relevance to the Poor - *poverty reduction potential*

<b>1. Number of poor households employed/engaged/able to access opportunities</b>
<i>Aim:</i> To assess the poverty impact of each market by comparing how many poor people are engaged in each market and how many of those can therefore be expected to benefit from growth stimulated by BIF2 intervention.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>What is the poverty incidence in the market?</i></li><li>• <i>For how many poor households is the market important (for income or services)?</i></li><li>• <i>What % of the population (i.e. poor and non-poor) have a chance of benefiting?</i></li></ul>
<b>2. Number of poor women involved in the market in different roles</b>
<i>Aim:</i> To assess the extent to which each market is important to poor women as well as men, and the degree to which each market offers a diversity of income/access opportunities for women.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>How important is the market to women and girls from poor households?</i></li><li>• <i>How many women/girls are engaged in the market?</i></li><li>• <i>What roles do women and girls play in this market?</i></li></ul>
<b>3. Opportunities both for poor women and men from poor households to improve their incomes and/or employment prospects significantly</b>
<i>Aim:</i> To assess the degree to which economic opportunities within each market can genuinely be realised / accessed by the poor, will have a transformational impact on them, or whether the nature of one or more markets is such that benefits are likely to be largely or wholly 'captured' by the non-poor.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>Is there potential for women and men to take on significant new or expand existing income generating roles that make them better off?</i></li><li>• <i>Are the opportunities significantly different for women compared to men?</i></li></ul>
<b>4. Ability to ameliorate vulnerability amongst poor households</b>
<i>Aim:</i> To establish if some/all markets have additional socio-economic benefits where particularly vulnerable households/communities are heavily reliant upon the market for essential livelihoods and/or risk mitigation strategies and would, therefore, be rendered significantly more vulnerable without access to the market.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>Does the market have the potential to strengthen strategies (for a significant number of poor) to reduce household risk (i.e. of food insecurity, environmental degradation, price fluctuation, socio-economic vulnerability etc.)?</i></li></ul>

**b. Constraints and opportunities for market growth - *pro-poor growth/access potential***

<b>5. Importance of the market to economy</b>
<i>Aim:</i> To place each market in the context of its contribution to overall GDP and/or importance in the economy.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>What is the relative importance (GDP, employment) to the wider economy and/or socio-economic development prospects?</i></li></ul>
<b>6. Strength of previous and forecast growth/access trajectory of market</b>
<i>Aim:</i> To compare and contrast the future viability and resilience of each market in terms of recent growth and development trends, and immediate- medium- and long-term growth predictions.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>What have been the recent annual growth/development trends in the market?</i></li><li>• <i>What are the common predictions for such trends going forward?</i></li><li>• <i>What are the key constraints (national/international) that are/may face future growth/development?</i></li></ul>
<b>7. Potential to benefit poor households</b>
<i>Aim:</i> To assess the degree to which poor households are well-placed to exploit growth/access potential. This leads on from 3. above but will focus on the skills, capacity and other 'assets' of poor households to take advantage of growth/access opportunities in each market.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>What share have poor households had in recent growth/access?</i></li><li>• <i>How competitive are poor households – what share can they be expected to have in any projected future growth?</i></li></ul>
<b>8. Level of competitiveness (OR collaboration) in the market</b>
<i>Aim:</i> To assess the level of dynamism and innovation apparent in each market and to establish where there are both signs of market evolution/innovation and, conversely, signs of market stagnation in relation to competing regions and/or neighbouring countries.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>How competitive is the market – nationally, regionally – i.e. level of innovation, copying innovations, number of new entrants?</i></li><li>• <i>How cohesive is the market – what level of organisation and cooperation is there amongst national market players?</i></li></ul>
<b>9. Current level of, and prospects to, attract (private/public) interest and investment</b>
<i>Aim:</i> To establish the current level of investment (internal or external) in the market both from private market and government/donors, and to gauge the likelihood of continued and/or growing investment by those stakeholders.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>What are the trends of investment and innovation in the market – from both private and public markets?</i></li></ul>

- *Is there a conducive and/or improving enabling environment likely to promote further/new investment?*

### **c. Feasibility of intervention**

#### **10. Availability of champions (change agents) with leverage**

*Aim:*

To identify the existence and/or potential for emergence of ‘change agents’ in each market who are or could be strategic partners for BIF2 to collaborate with and find mutually beneficial incentives to identify and develop new, pro-poor services, practices or activities.

*Guiding Questions:*

- *Is there evidence of innovation amongst key market players that is or has the potential to open opportunities for poor households in the market?*
- *Are there market players with national presence/networks/affiliates?*

#### **11. Strength and dynamism of the market**

*Aim:*

To assess the ‘depth’ and ‘diversity’ of each market in terms of existing and potential market players and services/functions that offer confidence that the market can and will see healthy competition and ‘crowding-in’ of market players and services as it grows.

*Guiding Questions:*

- *Is there evidence of the market responding effectively to market signals/changes?*
- *Are there numbers of active market players (e.g. key service providers) with the will and/or capacity as partners and to respond to new incentives and market opportunities?*

#### **12. Conduciveness of political economy and openness to change / policy reform**

*Aim:*

To identify any ‘binding’ constraints to change in each market, whether in terms of socio-political agendas, (significant) embedded transaction costs, resistance to potential policy/regulatory reform etc.

*Guiding Questions:*

- *Are the significant barriers (e.g. politics, regulation/legislation, non-competitive practices) to the development of the market?*
- *Are there significant market distortions (e.g. direct delivery-oriented donor projects; Government market subsidies) in the market that will undermine / negate the sustainability/systemic nature of impact from BIF2 intervention?*
- *Are the significant recent/ongoing changes/reforms that will benefit or constrain the market?*

#### **13. Willingness of market players to change business model/adopt new practice**

*Aim:*

To assess both the skills and the incentives for key market players (including herders/farmers) in each market to change in order to understand whether the necessary skills and incentives for change are within the scope of BIF2 investment to stimulate.

*Guiding Questions:*

- *Is there evidence of capacity and incentive amongst poor AND key market players to change/innovate?*

#### **d. Existing development efforts - *potential synergies***

<b>14. Consistency with DFID Country priorities</b>
<i>Aim:</i> To assess the respective prioritisation/alignment of markets with DFID strategy.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>What are DFID's existing/planned priorities and activities?</i></li><li>• <i>What opportunities/constraints may exist for collaborative action?</i></li><li>• <i>What are the risks of overlap/duplicated effort?</i></li></ul>
<b>15. Synergy with Government strategies</b>
<i>Aim:</i> To establish the complementarity of a pro-poor market intervention in each market with existing and planned Government strategy and initiatives.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>Would BIF2 intervention in the market be consistent / complementary to Government strategies?</i></li><li>• <i>What opportunities/constraints may exist for collaborative action?</i></li><li>• <i>What are the risks of overlap/duplicated effort?</i></li></ul>
<b>16. Synergy with other development initiatives</b>
<i>Aim:</i> To establish the complementarity of a pro-poor market intervention in each market with existing and planned initiatives of other donors.
<i>Guiding Questions:</i> <ul style="list-style-type: none"><li>• <i>Does BIF2, as an intervention tool, offer added value in light of the programmes/initiatives/tools already at play in the market?</i></li><li>• <i>What opportunities/constraints may exist for collaborative action with other initiatives?</i></li><li>• <i>What are the risks of overlap/duplicated of effort and/or contradictory strategies/approaches undermining one another?</i></li></ul>

## Draft Selection Matrix: Scoring Parameters and Weighting

Lens	Indicator	Scoring Parameters (1=low, 5 = high)					Cum. Score	Sub-total	Weight	Final
		1	2	3	4	5				
Relevance to the Poor	1. Number of poor households employed/engaged/able to access opportunities					X	5	20	0.3	6.0
	2. Number of poor women involved in the market in different roles					X	10			
	3. Opportunities both for poor women and men from poor households to improve their incomes and/or employment prospects significantly					X	15			
	4. Ability to ameliorate vulnerability amongst poor households					X	20			
Constraints and opportunities for market growth	5. Importance of the market to economy					X	5	25	0.3	7.5
	6. Strength of previous and forecast growth/access trajectory of market					X	10			
	7. Potential to benefit poor households					X	15			
	8. Level of competitiveness (OR collaboration) in the market					X	20			
	9. Current level of, and prospects to, attract (private/public) interest & investment					X	25			
Feasibility of intervention	10. Availability of champions (change agents) with leverage					X	5	20	0.2	4
	11. Strength and dynamism of the market					X	10			
	12. Conduciveness of political economy and openness to change / policy reform					X	15			
	13. Willingness of market players to change business model/adopt new practice					X	20			
Existing development efforts	14. Consistency with DFID Country priorities						5	15	0.2	3
	15. Synergy with Government strategies						10			
	16. Synergy with other development initiatives						15			
<b>TOTAL</b>									<b>20.5 (MAX)</b>	

## Disclaimer:

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